FOREIGN GOLD & DOLLAR RESERVES

Holdings Abroad Continue to Rise First Half 1962

Development and Trade Analysis Division November 1962

GLOBAL SURVEY

Total (public and private) gold and dollar holdings of foreign countries, excluding those in the Soviet Bloc, increased during the first half of 1962 by just over $1 billion compared to an increase of almost $700 million in the corresponding period of 1961. Countries showing noticeable gains during the period were France, the United Kingdom, Japan, and South Africa. More modest gains were registered by Austria, the Netherlands, Spain, Sweden, and Thailand. Noticeable losses were registered by Argentina, West Germany, Italy, and Switzerland.

Increased hoardings of gold on private account and use of reserves by countries in balance of payments surplus positions to repay debts to the United States, often on an advance basis, prevented a larger increase in international reserves. The Japanese gain represented a significant reversal from heavy losses July-December 1961. Italian and Swiss losses in the first half of 1962 reversed large gains of the previous 6-month period; seasonal weakness in Italy's payments position combined with Italian lending abroad and movement out of Switzerland of funds which had flowed in during the 1961 Berlin crisis in large part explain the reversals in the respective countries. Countries which also had registered large gains during the July-December 1961 period over the first half of 1961 included Belgium, France, Spain, the United Kingdom, and Mexico. All continued to gain gold and dollars in the first half of 1962.

Holdings of international institutions, principally the International Monetary Fund and the International Bank for Reconstruction and Development, rose by $561 million during January-June 1962. This was more than double the rise of $169 million registered during the same period of 1961. Rapidly

expanding memberships involving payments of subscriptions accounted for some of the rise in the gold holdings of the two major institutions. Increasing use of nondollar currencies when drawings were made and greater use of dollars for repurchases contributed to the increase in IMF dollar holdings. These holdings increased further in July when the United Kingdom completed repayment of its $1.5 billion IMF drawing of August 1961. The July installment was $512 million, repaid in several currencies, including $312 million in dollars.

The total increase in foreign gold and dollar holdings the first half of 1962 was, with the exception of the half year January-June 1961, the smallest half-year gain since 1957 and is two-thirds the size of the increase in the second half of 1961. Improvements in the U.S. balance of payments, attributable in large part to nonrepetitive transactions, were one factor in the modest slowdown of foreign gold and dollar accumulation. This accumulation would have been less had there not been a sizeable outflow of funds from New York, principally to Switzerland, following the market break of late May.

The gold and dollar reserves of the industrialized countries increased during the first half of 1962 by $755 million, or 2.3 percent. In the "other" countries, almost all of them less developed, gold and dollar reserves rose by $246 million, or 2.7 percent. However, drawings on the IMF bolstered the reserves of these other countries while various types of debt liquidations held down the accumulation in the industrialized countries. Reserves in the less developed countries thus contained a large borrowed component increasing debt obligations while debt repayment by the industrialized countries improved their financial positions. Demands of the other countries upon P.L. 480 program availabilities may, therefore, be expected to increase.

Table 1.--Foreign countries' 1/ gold and dollar assets

Country designation	Dec. 31 1958	Dec. 31 1959	Dec. 31 1960	Dec. 31 1961	June 30 1962
			Million dollars		
Industrialized 2/....	24,219	26,927	31,693	33,346	34,101
Other................	8,953	9,079	8,796	9,125	9,371
Total foreign......	33,172	36,006	40,489	42,471	43,472

1/ Excludes gold holdings of the Soviet Bloc.
2/ Includes Class I membership countries of the International Development Association and nonmembers who would otherwise be classified in this group.

U.S. AGRICULTURE AND THE WORLD PAYMENT SITUATION

Sales abroad of U.S. products, both agricultural and industrial, increased since the Korean War because of: elimination of the postwar dollar shortage in the advanced countries; dismantling to a commendable extent of restrictive trade barriers; the move of European countries to convertibility; and the broad general reduction of tariffs and miscellaneous exchange controls. Rising population and income probably will lead to further increases in these sales, but correspondingly rising imports by the United States likely will mean no significant increase in the U.S. surplus on trade account. Elimination by foreign countries of controls previously justified on balance of payments grounds may have led to more optimistic expectations than warranted for an increase in the U.S. surplus on trade account.

Rising gold and dollar reserves held by foreign countries probably have served as a partial basis for this optimism. Foreign held reserves of gold and dollars are, however, but one indication of the capacity of these countries to increase imports from the United States. Consumer tastes, income elasticity of demand for U.S. products, and increased domestic production are all of probable greater influence on the magnitude of imports from the United States.

The level of income in the industrial countries is a major factor influencing the prospective volume of imports of agricultural products. It is estimated that the income elasticity of demand for agricultural products in the industrialized countries is roughly one-half that in the less developed countries. 1/ The major U.S. commercial agricultural markets are in those industrialized countries where reserves are not a limiting factor, and the income elasticity of demand for agricultural products is relatively low. Yet, it is in the advanced countries that reserves have risen most strikingly while countries having higher income elasticities of demand for agricultural products generally show relatively weak gold and dollar reserve positions (table 2).

Import demand for U.S. agricultural products can be reduced over the short run in any country which may impose fiscal or monetary, or other, restrictions to correct a deterioration in its balance of payments position. Such a country may at the same time show an increase in reserves resulting from borrowings intended to strengthen the reserve position. The Canadian reserves increased through massive international borrowing, but prospects for U.S. agricultural exports were less favorable in the face of Canadian actions to reduce imports. Actions included increased duties on imports from the United States and other foreign countries.

Prospects for U.S. agricultural exports to Japan continued to improve with the increase in national income despite the 1961 drop in reserves. Prospects for increased exports to the United Kingdom, at least in the short

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1/ Preliminary studies by the Development and Trade Analysis Division

Table 2.--Agricultural imports from the United States and gold and dollar reserves of major importing customers

Country	1960				1961			
	Agricultural Imports 1/			Reserves	Agricultural Imports 1/			Reserves
	Commercial	Government program	Total		Commercial	Government program	Total	
	Million dollars							
Japan.........	463	22	485	2171	531	23	554	1897
Canada........	432	---	432	4186	491	---	491	4163
United Kingdom	476	34	510	5299	399	32	431	4961
West Germany..	332	23	355	6466	354	17	371	6508
Netherlands...	316	4	320	1796	316	2	318	1800
India.........	37	388	425	382	44	216	260	331
Italy.........	138	24	162	3080	196	42	238	3459
Spain.........	24	89	113	331	61	93	154	470
Belgium.......	134	3	137	1320	119	1	120	1582
France........	113	15	128	2181	105	7	112	3114
Brazil........	11	33	44	485	8	104	112	514
UAR--Egypt....	13	86	99	196	7	89	97	189
Turkey........	---	36	36	152	1	69	70	165

1/ From Trade Statistics and Analysis Branch, DTA-ERS and Federal Reserve Bulletin

run, also improved. But long-run prospects in the United Kingdom are clouded by the uncertainties in the agricultural arrangements which would evolve if the country becomes a member of the Common Market. The future of some U.S. agricultural exports to the present Common Market also is uncertain. 2/

The large increases in gold and dollar reserves held by industrial countries are not to be taken as a basis for expecting any large increase in U.S. agricultural exports to these areas. But the low reserve levels and weak foreign exchange earning capacity of the "other" countries probably mean that these countries will most likely continue to depend upon special programs provided under P.L. 480 to satisfy much of their agricultural import requirements as they prefer to allocate more of their foreign exchange earnings to the import of capital goods desired for economic development. In the first 6 months of 1962 most other countries did not noticeably improve reserve positions. Exceptions were: Thailand, Uruguay, Greece, and Spain. With the improvement in reserves, P.L. 480 shipments to Spain were substantially reduced and U.S. commercial agricultural exports increased.

UNITED STATES BALANCE OF PAYMENTS

In the first half of 1962, the U.S. balance of payments deficit totaled \$770 million; the deficit on an annual rate approximates \$1.5 billion, the level forecast earlier in the year. This represents a considerable improvement over the large deficits in excess of \$3.5 billion in each of the years 1958, 1959, and 1960. In 1961 the deficit dropped to \$2.5 billion.

The payments deficit in the first half of 1962 was \$551 million above that recorded for the same period in 1961. But the overall balance, as measured by changes in gold and foreign currency holdings of U.S. monetary authorities and in U.S. liquid liabilities to foreign countries, is not expected to worsen in the remaining half of 1962. The opposite situation occurred in 1961 when over 90 percent of total net transfers of U.S. reserves (gold and foreign currencies) and liquid dollar claims against this country occurred in the third and fourth quarters.

The improvement in the balance of payments reflects a favorable rise in merchandise exports, a decline in the net outflow of U.S. private capital, and increases in repayments on U.S. Government loans, including advance debt repayments from France and Sweden. Merchandise exports increased to an annual rate of \$21 billion in the first half of 1962 compared with imports of \$16 billion at an annual rate. This improvement in the merchandise trade balance approximates the 1961 high of over \$5 billion surplus and contrasts sharply with the trade balances in 1958 and 1959. Merchandise exports rose 10 percent from the first to the second quarter while imports continued a gradual upward movement.

2/ West Germany, Italy, France, the Netherlands, Belgium, Luxembourg.

Farm exports in the first half of 1962 rose slightly above the level in the corresponding period of 1961 (table 3) and continued to represent 25 percent of total U.S. merchandise exports. Agricultural exports reached an annual rate for calendar year 1962 of approximately $5.1 billion. 3/

Private U.S. net capital outflows, particularly for direct investment in Western Europe, continued to occupy a strategic role in the Nation's balance of payments. Net private capital outflow in the second quarter, totaling $868 million, was at the lowest rate recorded since the first quarter of 1960. Primarily, this decline in capital movements abroad reflected a favorable drop in private short-term capital movements, reversing a trend which had persisted since the third quarter of 1959.

Major special transactions exercising a favorable influence on the Nation's payments situation in the second quarter were the advance debt repayments on U.S. Government loans totaling $76 million. About $60 million of this total repayment was made by France and the remainder by Sweden.

The exchange crisis in Canada, recently checked, also aided in improving this Nation's balance of payments in the first half of the year. In the latter part of June and in July, however, Canada's exchange reserves improved with a return flow of some American investment capital. Thus, the situation as it materially aided the U.S. payments position was of only temporary duration.

HIGHLIGHTS IN THE INDUSTRIALIZED COUNTRIES

The 6-month rise of $755 million in gold and dollar holdings of foreign industrialized countries would at an annual rate mean a $1.5 billion rise for the year. The 1961 rise was slightly under $1.7 billion. The second half 1962 accumulation in France and the United Kingdom probably will drop as the result of special advance debt payments from France to the United States and Canada 4/ and a seasonal decline in the United Kingdom holdings. 5/ Monetary policy of foreign governments designed to aid the balance of payments position of the United States also may lead to a lower accumulation in the second half of this year. The Netherlands, which gained sizeable reserves of gold and dollars in the first half, indicated a desire to maintain equilibrium and to avoid further large rises in official gold and dollar reserves.

3/ For an analysis of the role of farm exports in the Nation's balance of payments see: "Importance of U.S. Farm Exports to Balance of Payments" ERS and FAS, USDA For. Agri. Eco. Rep. No. 7, Oct. 1962.

4/ In July these prepayments totaled $356 million. The portion paid to Canada does not mean a reduction by this amount in foreign gold and dollar reserves, but rather a shift of dollar reserves from France to Canada.

5/ The United Kingdom will also presumably pay its dollar debt obligations to the United States and Canada due December 1962.

Table 3.--U.S. agricultural and nonfarm merchandise exports, first and second quarters 1961 and 1962 1/

Transaction	1961				1962		
	I	II	Total	Year total	I	II	Total
	Million dollars						
Merchandise exports	5,012	4,922	9,934	19,915	5,015	5,015	10,520
Farm exports, Total (3) + (4)	1,319	1,141	2,460	5,030	1,216	1,351	2,567
(1) P. L. 480, Total	376	329	705	1,384	383	487	870
Title I, sales for foreign currency	246	177	423	853	247	320	567
Title II, famine and other emergency relief	61	48	109	195	33	57	90
Title III, foreign donations	36	40	76	155	47	37	84
Barter	33	64	97	181	48	62	110
Title IV, long-term commodity loans	---	---	---	*	8	11	19
(2) P.L. 665, sales for foreign currency and economic aid	50	81	131	179	19	8	27
(3) Farm exports under specified government programs, Total (1) + (2)	426	410	836	1,564	402	494	896
(4) Commercial sales for dollars, Total	893	731	1,624	3,466	814	856	1,670
Nonfarm merchandise exports	3,693	3,781	7,474	14,885	3,799	4,154	7,953

* Less than $1 million.
Details may not add to totals due to rounding.
1/ From reports published by Trade Statistics and Analysis Branch, DTA-ERS, USDA.

Table 4.--United States: Balance of payments with foreign countries, first and second quarters 1961 and 1962 1/ (nonadjusted)

Type of transaction	1961		1962		
	I and II Quarters	Year Total	I Quarter	II Quarter	I and II Quarters
	Million dollars				
Dollars paid by foreign countries					
U.S. exports of goods & services					
Merchandise	9,934	19,915	5,015	5,505	10,520
Services and other transactions	3,838	8,151	1,980	2,286	4,266
Foreign long-term investment in U.S.	472	606	290	94	384
Total receipts	14,244	28,672	7,285	7,885	15,170
Dollars received by foreign countries					
U.S. imports of goods & services					
Merchandise	6,858	14,514	3,946	4,078	8,024
Services and other transactions	2,921	6,340	1,412	1,670	3,082
Private capital outflow (net)	1,944	3,953	866	686	1,552
U.S. Government spending					
Military expenditures	1,526	2,947	752	743	1,495
Economic grants & loans (net)	934	2,777	922	915	1,837
Total payments	-14,183	-30,531	-7,898	-8,092	-15,990
Total net receipts (+) or payments (-)	61	-1,859	-613	-207	-820
Errors, omissions and unaccounted, net	-280	-602	151	-101	50
Change in gold and convertible currency holdings of U.S. monetary authorities and foreign holdings of liquid dollar assets	-219	-2,461	-462	-308	-770

1/ Excludes military grant aid.
Survey of Current Business, June & September 1962

Funds from the United States and other countries which moved to Switzerland following the break in international stock markets in June will probably begin to move out. But these shifts likely will be of dollars from Switzerland to other foreign countries unless U.S. economic conditions and financial incentives lead to a larger flow of dollar investments to the United States.

In Austria, continuing balance of payments surpluses, arising in large part out of record tourist receipts and inflows of capital, both private and official, led to a further increase in gold and dollar reserves. Liberalization of restrictions on capital outflows that permit residents to purchase foreign securities, and liberalization of tariffs that permit wage increases to be reflected in a rise in imports may lower the rate of increase in reserves.

Belgian reserves rose in 1961 and continued to rise modestly in the first half of 1962. The gold content of reserves increased, both in absolute amount and as a percentage of total. In the Netherlands gold and dollar reserves reached an all-time high the end of June and continued to rise in July. A tight domestic capital market and an increase in interest rates reduced capital outflows, but the balance on invisibles continued to improve.

France continued to gain reserves. Continuing balance of payments surpluses resulted in a rise of $541 million during 1961 and brought total reserves to $2.9 billion by December 31. A further rise to $3.5 billion occurred the first 6 months of this year. A highly favorable balance on the trade account and a moderately favorable rise in invisible items allowed continued reserve increases in June. This was at a time when advance payments of debts were made to the United States and Canada, and francs drawn by Canada from the IMF were converted into dollars. The buildup in reserves continued into July when allowance is made for heavy prepayments of foreign debts. The striking increase in French reserves was not accompanied by major increases in the import of U.S. agricultural products. France is likely to have excess production and exportable surpluses of its own in future years.

A series of annual surpluses in the balance of payments in Italy led to a sharp rise in reserves through 1961. But domestic investment and rising wages leading to higher imports and an outflow of capital on government account led to a moderate decline in reserves during the first 6 months of 1962.

German gold and dollar reserves, although declining, remain very large as the balance of payments surplus continues. The surplus was cut by: higher export prices reflecting rising industrial costs; increased purchases of U.S. military materiel for dollars; and outflows for foreign economic assistance (primarily official capital outflows so far). It seems likely that not all the private funds which left the country after the 1961 Berlin crisis returned and additional amounts probably moved out as the German stock market suffered further losses in May and June. Commercial banks also

Table 5.--Estimated gold reserves and dollar holdings of foreign countries and international institutions

Area and country	Dec. 31 1958	Dec. 31 1959	Dec. 31 1960	Dec. 31 1961	June 30 1962 p/	Change since Dec. 31, 1961
			Million U.S. dollars			
Western Europe:						
Austria	612	630	546	561	640	79
Belgium	1,391	1,279	1,320	1,582	1,595	13
Denmark	206	232	144	113	112	-1
Finland	105	110	88	140	135	-5
France	1,294	1,980	2,181	3,114	3,675	561
Germany (Federal Republic of)	4,407	4,640	6,466	6,508	6,292	-216
Greece	143	212	139	154	206	52
Italy	2,209	3,119	3,080	3,459	3,429	-30
Netherlands	1,399	1,634	1,796	1,800	1,890	90
Norway	293	266	403	261	216	-45
Portugal	656	687	638	543	585	42
Spain	96	157	331	470	569	99
Sweden	517	505	556	679	730	51
Switzerland	2,853	2,991	3,014	3,518	3,438	-80
Turkey	164	164	152	165	163	-2
United Kingdom	3,917	3,813	5,299	4,961	5,302	341
Other 1/	899	642	612	726	714	-12
Total	21,161	23,061	26,765	28,754	29,691	937
Canada	3,438	3,610	4,186	4,163	3,793	-370
Latin America:						
Argentina	210	393	420	426	313	-113
Brazil	464	479	485	514	510	-4
Chile	140	228	180	153	175	22
Colombia	241	288	237	236	252	16
Cuba	452	296	118	44	38	-6
Guatemala	69	61	69	70	76	6
Mexico	565	587	543	611	626	15
Panama, Republic of	148	132	126	88	88	---
Peru	96	111	114	132	137	5
Uruguay	262	242	233	238	260	22
Venezuela	1,215	932	800	816	761	-55
Other 2/	261	265	379	470	557	87
Total	4,123	4,014	3,704	3,798	3,793	-5
Asia:						
India	324	361	382	331	302	-29
Indonesia	145	173	237	120	126	6
Iran	184	187	152	161	156	-5
Japan	1,095	1,566	2,171	1,897	2,102	205
Philippines	189	184	222	213	208	-5
Thailand	246	246	290	368	431	63
Other	1,068	1,291	1,079	1,213	1,248	35
Total	3,251	4,008	4,533	4,303	4,573	270
All Other:						
Australia	241	264	235	260	281	21
South Africa	242	288	208	330	471	141
U.A.R. (Egypt)	190	194	196	189	193	4
Other 3/	526	567	662	674	677	3
Total	1,199	1,313	1,301	1,453	1,622	169
Total foreign countries 4/	33,172	36,006	40,489	42,471	43,472	1,001
International	3,371	6,225	8,178	7,121	7,682	561
Grand total 4/	36,543	42,231	48,667	49,592	51,154	1,562

p. Preliminary. 1/-Includes other Western European countries, unpublished gold reserves, gold to be distributed by the Tripartite Commission, E.P.U., E.F., B.I.S.; the figures for the gold reserves of the B.I.S. represent the Bank's net gold assets. 2/-Includes other Latin American republics and the Inter-American Development Bank. 3/-Includes unspecified countries in Africa, Oceania, and Eastern Europe, and all Western European dependencies located outside Europe and Asia. 4/-Excludes gold reserves of the U.S.S.R., other Eastern European countries, and China Mainland.

Federal Reserve Bulletin.

moved funds out until June when a tight money market caused a reflow. Funds began to leave the country again in July. The German commercial banks, with large holdings, were sensitive to shifts in the needs of the private money market and to changes in official monetary policy. These shifts often cause sizeable movements in official reserve holdings. Protective trade barriers, not lack of reserves, kept U.S. agricultural exports far below the level normally expected from the price advantages enjoyed by competing U.S. agricultural products. Reserves in Switzerland declined for the 6-month period January-June 1962. The decrease occurred despite a sharp inflow of funds in June following the break on almost all major international stock exchanges.

The massive operations of the United Kingdom in late summer 1961, including an IMF drawing of $1.5 billion in August and September, bolstered reserves and reduced pressure on the pound. By August of this year the United Kingdom had fully repaid the drawing. The reserve position of the United Kingdom improved modestly in the first half of 1962, allowing for the large repayments to the IMF. Exports rose slowly but imports increased more than seasonally as the demand for food and feed imports rose. In the second quarter of the year when interest rates declined large outflows of private long-term capital occurred.

Canadian reserves fell almost $1 billion between January 1 and June 24 after reaching an 8-year record of $2.1 billion the end of 1961. The severe drain reflected primarily speculation against the Canadian dollar. Establishment of a par value May 2 did not halt the drain and between June 1 and June 24 reserves fell an additional $393 million. In the last week of June, reserves rose over $700 million. The rise was attributable mainly to the drawing on the IMF, the reciprocal balance arrangement with the Federal Reserve System and a credit from the Bank of England. At the same time the Canadian Government effected heavy borrowings, announcement was made of "temporary" import surcharges on almost all imports including a wide variety of agricultural commodities.

Japan's reserves, which declined sharply in 1961 when the country ran into a severe external payments crisis, recovered during the first half of 1962. The relatively stable reserve position achieved in the last weeks of 1961 and the opening months of 1962 resulted in large part from special arrangements between the Bank of Japan and American commercial banks. Restrictive monetary policy leading to containment of price rises, reduced imports, and increased exports helped strengthen reserves.

South African reserves increased markedly the first half of 1962 as a result of import and exchange controls and rising levels of domestic gold production and merchandise exports.

HIGHLIGHTS IN THE LESS DEVELOPED COUNTRIES

Gold and dollar reserves of the less developed countries increased 2.7 percent during the first 6 months of 1962. Many of these countries were, however, recipients of large amounts of aid and drew heavily on IMF quotas. Moreover, most of the rise could be accounted for in three countries: Greece, Portugal, and Spain.

Of more serious concern was the decline in most of the less developed countries in earnings from exports of primary commodities. Commodity prices have tended downward for the past 10 years. Export earnings from several crops declined even when export volume had risen substantially. In key countries earnings from the exports of cocoa, coffee, cotton, rubber, wool, butter, and dried fruit were notably lower in the first half of 1962 than in the corresponding period of 1961. These declines occurred in the face of steadily rising demand, particularly for agricultural products. This is especially so in the case of coffee and cocoa.

There is hardly a commodity traded in world markets on which the economy, and thus the reserve position, of at least one country does not depend. Reserve increases, not based on borrowings, can only result from diversification of these economies on a long-term development basis. Over the past 10 years, earnings from primary commodities have fallen to approximately three-fourths the 1952 level with only exceptional events giving a rise to earnings. These countries have little opportunity to increase reserves by trade while the declines in commodity export earnings roughly approximate or even exceed foreign aid receipts. Thus, the reserves of many of the less developed countries are disturbingly inadequate to meet exchange costs of imports urgently needed to expand economic growth.

In Spain gold and dollar reserves continued each month in the first half of 1962 to reach new all time highs. Although there was a deficit on trade account, the increase in reserves was maintained by private remittances, tourist receipts, U.S. military expenditures, and increased direct investment by foreigners following the liberalization of investment regulations. Increased citrus fruit exports helped offset the cost of large capital imports required as industrial inputs. During the first half of 1962 total imports increased by volume and value, but imports of agricultural products decreased. The composition of reserves changed during the first 6 months of 1962 with an increase in gold purchases.

Argentine gold and dollar reserves dropped sharply during the first half of this year, attributable in large part to the serious political uncertainty following the March elections. The first 6 months saw abortive attempts on the part of the Government to stabilize the exchange rate at an increasing cost in reserves. In an effort to reduce the drain on reserves the Government imposed an additional 20 percent import tax and curtailed imports by State-owned enterprises. Argentine export earnings arise primarily out of the agricultural sector. Agricultural exports by value average between 93 and 97 percent of annual export receipts. The outlook for

rebuilding export earnings, at least in the short run, is not bright because of uncertain prospects for exports to the Common Market, reduction of meat exports as a result of foot and mouth disease, over-slaughtering in recent years, and lack of opportunities for rebuilding herds for meat exports. Rising domestic demand also reduced the amount of meat available for export. The country has depended upon an inflow of foreign investment and IMF and U.S. Treasury assistance to support reserves. Political unrest discouraging investment and the already heavy drawings on the IMF limit future assistance from these sources.

In Brazil reserves remained through the first half of 1962 at about the level of December 1961. Brazil's capacity to restore reserves to earlier higher levels was reduced by gradually declining prices on commodity exports, an unreal exchange rate which favored imports, almost uncontrolled domestic inflation, and political disturbances. The "pegged" exchange rate impaired Brazil's stabilization efforts, caused a sharp drop in export receipts, and contributed to a capital outflow. In June, Brazil introduced a new exchange rate policy, but the new rates did not reflect the rise in internal prices. Exports were discouraged while pressure for increased imports mounted.

Mexican reserves increased slightly during the first half of 1962. The small increase was encouraging since there is usually a weakness in reserves in the first half of the year. Plus factors were higher sugar sales, increased tourist receipts, reduced capital flight, and a decline in imports attributable to tight control over the issue of import licenses and reduced Government purchases. Weakness in prices for several commodity exports was a minus factor.

Panamian reserves, which declined in 1961, remained at the level of December 1961 throughout the first 6 months of 1962. Rising industrial imports and reduced earnings from banana exports prevented increases in reserves. Banana export earnings declined partly because of a reduction of the crop resulting from labor difficulties and poor weather.

In the Asian area only Thailand showed a noticeable increase in reserves, registering a rise of $63 million from January to June 1962. In June reserves were 24 percent above the level of June 1961. Thailand's reserves have shown an unbroken rise the past 2½ years. Reserves were bolstered by a net inflow of capital, both private and official, and the progressive diversification of agriculture with less dependence upon rubber exports for exchange earnings.

India's massive effort at economic development was reflected in a vulnerable reserve position. Gold and dollar reserves fell to a new low of $302 million the end of June 1962. Total reserves, including currencies in addition to the dollar, were sufficient to cover less than 2 months import requirements. Indonesian reserves, which fell in 1961 by one-half from the December 1960 level, remained approximately constant during the first half of 1962. Severe restrictions cut imports sharply, but exports were weaker because of an unrealistic exchange rate.

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